Navigator

Now, next and how for business

Canada

HSBC

Together we thrive

Overview

Canadian firms stay the course as economic indicators weaken

While Canada's businesses expect to grow in the next year and beyond, forecasts are subdued. Weaker global growth is hitting exports and making domestic consumers wary of spending. The economic outlook also faces the downside risks of US/China trade tensions, volatile oil prices and high household debt[1]. But companies are prepared to use a number of strategies to mitigate threats at home and abroad.

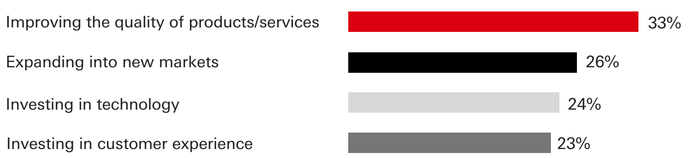
State of play

Five factors driving (modest) growth

84% of Canadian businesses expect their sales to grow over the next 12 months – a figure slightly higher than both the global average (79%) and the US (80%). But while 34% of US firms forecast growth of 15% or more, their Canadian counterparts have lower expectations. Only one in five (21%) foresee a large boost to business.

Where growth is expected, businesses point to five main drivers. Internally, companies are looking for efficiency from improving productivity (30%), investing in technology (29%) and motivating their workforce (28%). Externally, the top factors are new market opportunities (33%) coupled with better quality and availability of suppliers and raw materials (27%).

Strategies to overcome the threats or potential decline of businesses



[1] https://www.focus-economics.com/countries/canada

What you need to know

1. Over the next five years, less than a fifth (19%) of Canadian firms expect sales growth of 15% or more.
2. But only 7% of companies are anticipating that their business will shrink.
3. More than half of firms expect that their business will totally or substantially change in the next five years, in line with the global average, but behind the US (66%).

What your business can do

Improve the quality of products and services. 33% of Canadian firms are using this strategy to minimise risk from competitors when growth slows and margins tighten.

Consider markets beyond your traditional trading horizon. 33% of Canadian businesses are looking further afield.

Remember that people power business. Growing firms cite motivating workforce as a main driver (28%), 23% of all firms invest in customer experience to overcome potential threats.

Trade outlook

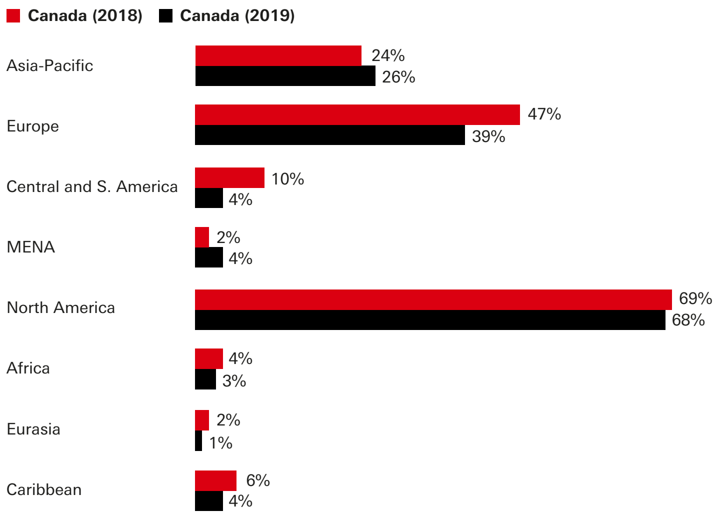
Canada expanding its trading horizons

While Canada's key trading market remains the Americas, particularly the US and Mexico, there are interesting changes predicted for the years ahead. The importance of trading with China is growing and is expected to be even stronger in the future.

At the same time, a third of businesses in Canada have reduced trade with the US in the past two years and 18% intend to do so in the next two years.

Over the next five years, the US (48%), Mexico (16%) and China (11%) will continue to be the top three markets targeted for Canadian business expansion.

Current top trading partners



What you need to know

1. Canadian companies (86%) are significantly more positive about prospects for international trade over the next two years compared to 2018 (up by 19%), ahead of the global level (81%), but behind the US (89%).
2. Customer demand is a key reason for Canadian businesses wanting to strengthen their business within the NAM region (USA: 34%, Mexico: 44%).
3. Canadian businesses also cite favourable partnership opportunities in the US (41%) and new trade agreements (27%).

What your business can do

- Consider your supply chain strategically. Canadian firms are shifting focus from lower cost suppliers and domestic suppliers to strategic suppliers (21%) and certain bases (18%).
- Be prepared for sweeping changes. More than half of Canadian firms think their business will change totally or substantially in the next five years.
- Make more use of digital technology, as 22% of Canadian businesses are planning to do.

Protectionism and geopolitics

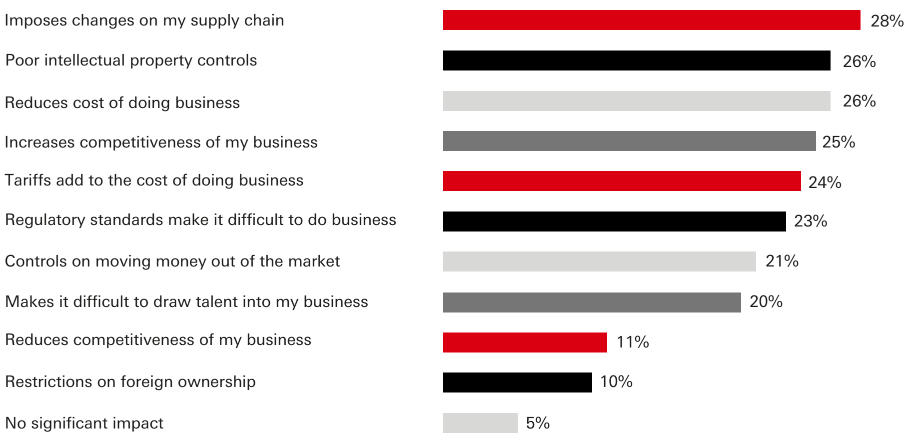
Weathering protectionist headwinds

In line with global sentiment, more than two-thirds of Canadian businesses believe governments are becoming more protective of their domestic businesses. But protectionism is viewed as a net positive by close to seven in 10 Canadian firms – more than 10% over the global average (57%). In this case, some Canadian businesses might be reaping the benefits of US/China trade tensions, which is causing companies to look to Canada when sourcing partners in trade in North America.

Despite this side effect, Canadian firms are still finding it necessary to take steps to combat the negative impacts of protectionist policies in markets they trade in, including changing their offerings in those markets.

Geopolitically, slightly fewer Canadian companies feel a strong impact (68%) than in Mexico (73%) or the US (78%). This may be due to a favourable feeling about policy as two major trade deals take effect. Both the Comprehensive Economic and Trade Agreement (CETA), which initiated free trade with the European Union, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which agreed terms of trade with Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, started to take effect in the last 12 months.

Ways in which businesses are coping with geopolitics



What you need to know

1. More than two-thirds (68%) of businesses in Canada are strongly impacted by geopolitical risk, but that's lower than for Mexico (73%) and the US (78%).

2. The same proportion think that protectionism is on the rise, slightly above the global average (Canada: 68%, global: 65%).

3. Negative impacts from protectionism include changes to supply chains (28%), poor intellectual property controls (26%) and additional tariffs (24%).

What your business can do

Create a buffer against external impacts. Defensive Canadian firms are increasing their capital reserves (26%) and securing their supply of raw materials and energy (26%).

Change your offering in adverse markets. This is one key way to mitigate the negative effects of protectionism.

Start partnerships with local companies, which is a strategy employed by one in five firms against both geopolitical and protectionist threats.

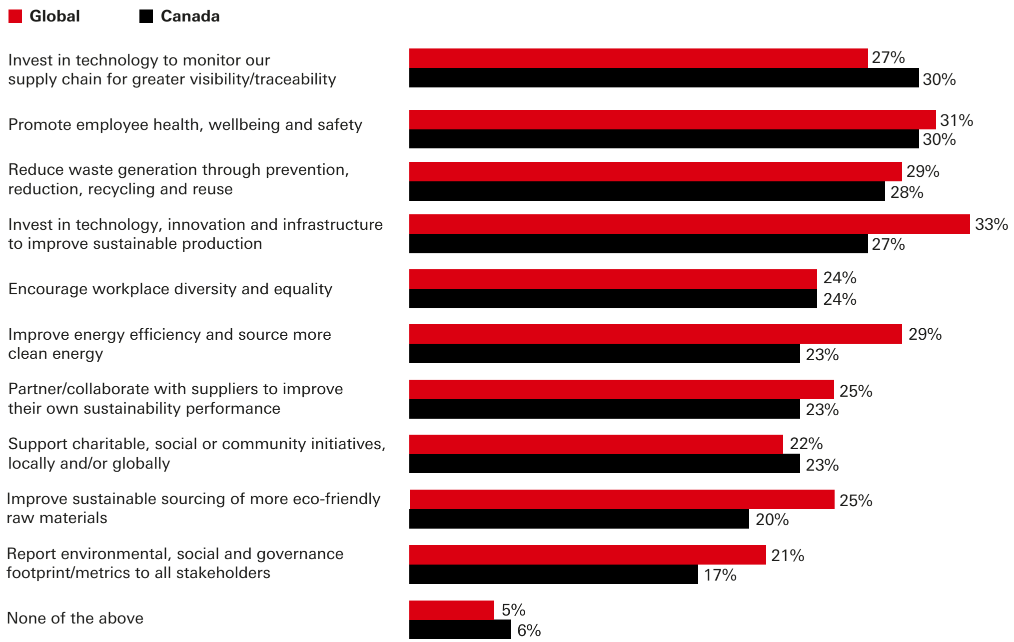
The sustainable future

Canadian firms feel they can significantly contribute to sustainability

Growing sales, attracting the best people, improving transparency and traceability, and building a competitive advantage are the top motivations for Canadian businesses to become more sustainable. In a bid to achieve these benefits, companies are prioritising their investments. Companies are more likely to increase investment in technology, promote employee health and wellbeing, and reduce waste to improve their sustainable practices in the future.

In Canada, slightly more businesses believe they have a significant role to play to deliver on the UN's Sustainable Development Goals (30% versus 25% globally). And the number of areas where they feel they can help is quite diverse. Firms believe they have a role in delivering quality education (16%), health and wellbeing (14%), responsible production and consumption (12%) and climate action (11%).

Sustainable investment priorities over the next five years



What you need to know

1. The top motivations to implement sustainable practices are to grow sales (29%), attract and retain the best people/ improve the employer brand (24%), improve transparency and traceability (22%) and competitive advantage (22%).

2. Canadian firms feel the greatest pressure to become more sustainable over the next five years from employees (32%), followed by government (29%), competitors (29%) and regulators (28%).

3. Finding the resources to implement sustainability remains a challenge.

What your business can do

- Identify incremental improvements to gain the benefits of a healthier workforce, transformative technology and energy efficiencies.
- Remember, supply chains are key. Over the next five years, Canadian businesses are more likely to increase their investment in technology to monitor suppliers (30%).
- Consider the impact of employee wellbeing. More than half of Canadian companies already offer mental health coverage (56%) and flexible working hours (55%).

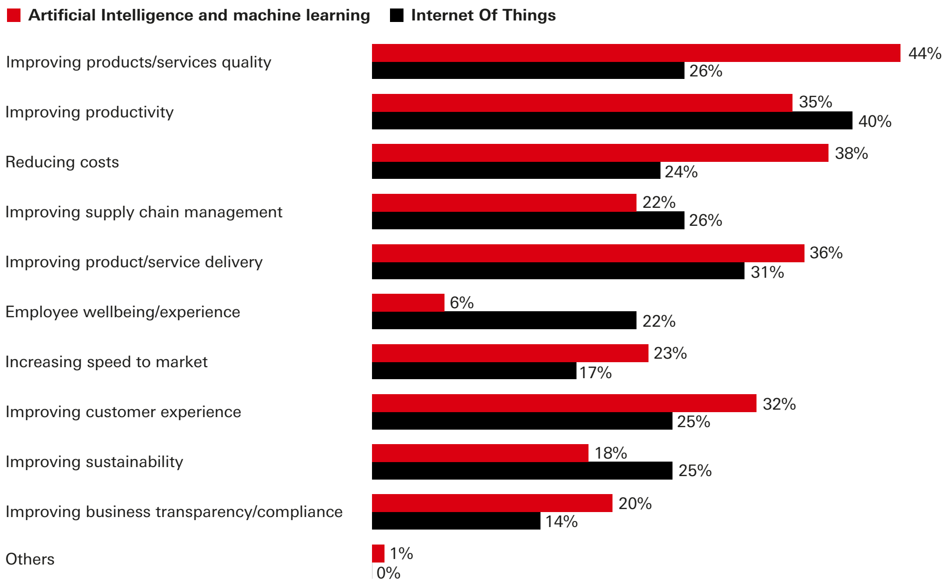
Breakthrough tech

Bring on the robots – companies predict lower costs and higher quality

Robotics, data security technology and artificial intelligence (AI) are the top technologies for businesses in Canada over the next five years. For those citing the impact of these technologies, robotics is expected to reduce costs (56%) and improve productivity (45%); data security technology can improve employee wellbeing and experience (39%), and AI can boost product and service quality (44%). In comparison with businesses globally and in the US, fewer Canadian firms believe that 5G will be important to their business (Canada: 19%, Global average: 25%, US: 33%).

Globally, Canada is considered to be on a par with the US in terms of how advanced each country is in developing data security technology (57%), while the US leads in robotics (Canada: 36%, the US: 53%), artificial intelligence and machine learning (Canada: 32%, the US: 59%).

Benefits of specific technologies over the next five years



What you need to know

1. Around a quarter of companies in Canada think that robotics, data security technology and AI will have the most impact on their business in the next five years.

2. Globally, data security is seen as more important (26%), but Canadian firms put robotics first (26%).

3. Canadian businesses see their own country and the US as the hub for all technologies, with the US outperforming in all areas but data security.

What your business can do

Capitalise on Canada's position as a world-leading technology hub. Emphasise your company's technology credentials to win new business.

Analyse your business processes for improvement opportunities. Those who believe robotics will impact their business, for example, expect reduced costs (56%) and improved productivity (45%).

Don't ignore lower-ranked technologies. Although Canadian firms think 5G is less important than globally, 31% of those that do see its impact believe it will improve product or service quality.

About HSBC Navigator Canada

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Canada. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2: all companies. n=200

Page 3: international operators (trend). n=120

Page 4: companies who think governments are becoming more protective. n=134

Page 5: all companies. n=9131/200

Page 6: companies who will be impacted by any technology. n=45/36

For enquiries please contact:

Kate Woodyatt

HSBC Global Communications

katewoodyatt@hsbc.com

Or go to www.business.hsbc.com/trade-navigator

Issued by HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom www.hsbc.com